

**BILL #** SB 1110

**TITLE:** educational choice scholarships

**SPONSOR:** Verschoor

**STATUS:** As Introduced

**REQUESTED BY:** Senate

**PREPARED BY:** Steve Schimpp

## **FISCAL ANALYSIS**

### **Description**

The bill would provide “educational choice scholarships” to pupils who want to attend private school, starting with pupils in Kindergarten and Grade 12 in FY 2006 and phasing in additional grades per year until all grades are eligible in FY 2010. The scholarship amount per pupil under the bill would equal “80% of the average statewide per pupil expenditure for public schools.” The bill would require the Arizona Department of Education (ADE) to establish and maintain an education savings account for each pupil who received a scholarship in order to account for and process their scholarship money. The bill would permit students to use monies remaining in their education savings account after K-12 graduation, if any, for higher education tuition and fees.

### **Estimated Impact**

The JLBC Staff is unable to determine the fiscal impact of the bill, although it is likely to have a significant cost at least in the short run. The bill’s ultimate net impact will depend on whether enough public school students transfer to private schools and thereby generate General Fund K-12 savings to offset the cost of the Educational Choice Scholarships to existing private and home schooled pupils. We estimate that scholarships for those pupils would cost about \$27 million in year one (FY 2006) and increase to about \$191 million upon full implementation in FY 2010.

The bill would be cost neutral in year one (FY 2006) if 27,000 students left the public school system for private education. Since the current capacity of private schools is 40,000, a one year increase of that magnitude seems difficult to achieve. Private schools would be more likely to build substantial new capacity over time, but would still need to expand by 176,000 students in order to achieve cost neutrality for the bill by FY 2010.

### **Analysis**

The bill would be “cost neutral” if scholarship costs for existing private school pupils and for home school pupils who decided to transfer to private schools under the bill were offset by savings from pupils transferring out of public schools. A savings would occur for each pupil transferring out of public schools because each of those pupils would receive 20% less funding in private versus public schools under the bill. We estimate that the bill would be “cost neutral” if about 27,000 pupils transferred out of public schools in FY 2006 and if this total increased cumulatively to about 54,000 pupils in FY 2007, 94,000 pupils in FY 2008, 135,000 pupils in FY 2009 and 176,000 pupils in FY 2010. These estimates assume that the bill would be amended to prohibit non-growing school districts from including transferred pupils in their “prior year” Average Daily Membership (ADM) counts after they transferred. Otherwise non-growing districts would continue to receive Basic State Aid for transferred pupils for 1 year, since they receive Basic State Aid funding based on their *prior* year rather than *current* year ADM counts. We roughly estimate that about 54,000 transfers (double the initial number) would be required in order for the bill to be cost neutral in FY 2006 if non-growing districts were allowed to keep transferred pupils in their prior year ADM counts under the bill. We estimate that approximately 1,000,600 ADM pupils will attend public schools apart from the bill in FY 2006.

Based on input from county school superintendents, we estimate that currently about 40,000 pupils attend private schools and 22,000 pupils are home schooled in Arizona. Our “cost neutral” estimates for the bill assume that virtually all existing private school pupils would seek scholarships under it, since this would eliminate or greatly reduce their parents’ out of pocket costs for private school tuition and fees. Our estimates also assume, as a very rough guess, that about 15% of home school pupils would apply for scholarships under the bill. The 15% estimate is highly speculative and assumes that parents of most home school pupils would continue to prefer home school instruction to private school instruction, even if the latter were free, or that they would not have convenient access to a private school of their choosing. Based on current trends, we

assume that Arizona's private school population would remain at about 40,000 per year apart from the bill and that the statewide home school population would grow about 3% per year.

#### Estimated Number of Scholarships for Current Private and Home School Pupils

Under the phase-in schedule prescribed in the bill we estimated that about 15% of private and home school pupils would be eligible for scholarships in FY 2006, when only Kindergarten & 12<sup>th</sup> Grade pupils would qualify. We estimate that the eligibility percentage would increase to 31% in FY 2007 (Grades K, 1, 11 & 12 eligible), 54% in FY 2008 (K-2 and 9-12 eligible), 77% in FY 2008 (K-3 and 7-12 eligible) and 100% in FY 2009 (all grades eligible). These percentages plus the other assumptions described above imply that about 6,700 private and home school pupils would receive scholarships under the bill in FY 2006 (40,000 private school pupils X 15.3% + 23,340 home school pupils X 15.3% X 15% = 6,700 scholarships pupils). They also imply that this total would increase to about 13,400 pupils in FY 2007, 23,500 pupils in FY 2008, 33,700 pupils in FY 2009 and 43,900 pupils in FY 2010.

#### Scholarship Cost for Existing Private and Home School Pupils

The bill states that each eligible pupil would receive a scholarship equal to "80% of the average statewide per pupil expenditure for public schools." We interpret this to mean "80% of the average statewide per pupil expenditure for public schools *from state and local sources combined under the state equalization funding formula for public schools.*" This interpretation includes all funding that is allocated to school districts and charter schools under the state equalization funding formula. It excludes miscellaneous state grants, federal grants, funding from the School Facilities Board, and local funding for items such as overrides, bond elections, desegregation and excess utilities. Under this interpretation, we estimate that the bill would provide per pupil scholarships of about \$4,018 in FY 2006, \$4,098 in FY 2007, \$4,180 in FY 2008, \$4,264 in FY 2009 and \$4,349 in FY 2010. Based on these estimates, we project that scholarships for existing private and home school pupils would cost about \$27 million in FY 2006 (6,700 scholarships X \$4,018 = \$27 M), \$55 million in FY 2007 (13,400 scholarships X \$4,098 = \$55 M), \$98 million in FY 2008 (23,500 scholarships X \$4,180 = \$98 M), \$144 million in FY 2009 (33,700 scholarships X \$4,264 = \$144 M), and \$191 million in FY 2010 (43,900 scholarships X \$4,349 = \$191 M).

#### Cost Neutral Scenarios

The estimates described above suggest that the bill would be "cost neutral" if about 27,000 public school pupils transferred to private schools under the bill in FY 2006. For subsequent years we estimate that cost neutrality for the bill would be achieved if the number of cumulative public school transfers equaled about 54,000 pupils in FY 2007, 94,000 pupils in FY 2008, 135,000 pupils in FY 2009 and 176,000 pupils in FY 2010. All estimates assume a 20% savings for each transferred pupil.

#### **Local Government Impact**

Under the "cost neutral" scenarios described above, K-12 equalization funding to local school districts and charter schools would be lower than under current law by an estimated \$27 million in FY 2006, \$55 million in FY 2007, \$98 million in FY 2008, \$144 million in FY 2009 and \$191 million in FY 2010. For most school districts, we assume that these funding losses would reduce General Fund costs rather than "local share" tax rates, since the latter are affected only by changes in tax rates and property values and neither of them would be affected by the bill. This would not be the case for "non-state aid" districts, however, which are school districts that fully fund their own K-12 equalization formula costs because of their strong local property tax base. Any reduction in ADM counts for non-state aid districts potentially would cause them to lower their K-12 "local share" tax rates, since those rates are usually based on their public school enrollments. This would not necessarily occur, though, because non-state aid districts are required to levy a "local share" tax rate equal to at least 50% of the K-12 Qualifying Tax Rate (QTR) pursuant to A.R.S. § 15-992(B).

Since past patterns indicate that only about 1% of the cost impact of reduced ADM counts in local school districts affects tax rates in non-state aid districts, we have not adjusted our "cost neutral" scenarios to reflect the influence of non-state aid districts. We roughly estimate, however, that non-state aid school districts would lose funding equal to about 1% of estimated statewide losses under the "cost neutral" scenarios described above unless offset by other enrollment growth. This would equal funding losses of about \$270,000 in FY 2006, \$550,000 in FY 2007, \$980,000 in FY 2008, \$1,440,000 in FY 2009 and \$1,910,000 in FY 2010 and would reduce our General Fund "savings" estimates accordingly.